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Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03 SP-02 LAB-04
SIL-01 OMB-01 /063 W
----------062858 102004Z /64
R 101644Z MAY 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5661
INFO AMEMBASSY BRUSSELS
AMEMBASSY PARIS
AMCONSUL PONTA DELGADA
USDOC WASHDC
AMCONSUL OPORTO

LIMITED OFFICIAL USE SECTION 1 OF 2 LISBON 3478

BRUSSELS FOR USEC; PARIS FOR OECD; DEPT ALSO FOR EXIMBANK;
DEPT PASS TREASURY FOR SYVRUD

E.O. 11652: N/A
TAGS: EFIN PO
SUBJ: IMF AGREEMENT: BANK OF PORTUGAL RAISES INTEREST RATES

REF: LISBON 3395

BEGIN SUMMARY: BANK OF PORTUGAL HAS ANNOUNCED BORROWING AND LENDING INTEREST RATE HIKES EFFECTIVE MAY 8. CENTRAL BANK'S DISCOUNT RATE CLIMBED BY FIVE PERCENTAGE POINTS - TO 18 PERCENT FROM PREVIOUS 13 PERCENT. GIVEN EXCHANGE RATE REGIME (REFTEL), NEW INTEREST RATE LEVELS ARE PROBABLY INSUFFICIENT TO DISCOURAGE CAPITAL FLIGHT. END SUMMARY.

1. NEW INTEREST RATES ANNOUNCED BY BANK OF PORTUGAL ARE:

OPERATION	OLD RATE (PERCENT IN EFFECT SINCE 8/77)	NEW RATE PERCENT EFFECTIVE 5/8/77)
A. WITH MONETARY INSTITUTIONS:		
CENTRAL BANK		
DISCOUNT:	13.0	18.0
B. DEPOSITS:		
DEMAND DEPOSITS AND DEPOSITS TO 30 DAYS IN:		

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(1) SPECIAL CREDIT INSTITUTIONS:
UP TO 100 THOUSAND
ESCUDOS: 4.0 4.0#
IN EXCESS OF 100 THOUSAND
ESCUDOS 2.0 2.0#
(2) COMMERCIAL BANKS: 1.0 1.0
TIME DEPOSITS:
30-90 DAYS: 6.0 8.0
91-180 DAYS: 9.0 12.0
181 DAYS - 1 YEAR 15.0 19.0
1-2 YEARS 16.0 20.0
MORE THAN 2 YEARS 17.0 20.0
C. CREDIT:
TO 90 DAYS: 14.75 18.25
90-180 DAYS: 15.25 18.25
180 DAYS - 1 YEAR 16.5 20.0
1-2 YEARS: 17.0 20.5
2-5 YEARS: 17.75 21.25
MORE THAN 5 YEARS: 18.75 22.25
D. SUBSIDIES:
PRE-FINANCING OF
EXPORT ORDERS: 5.0 (UNSPECIFIED
EXPORT FINANCE: ("IMPROVEMENTS"
(IN EXPORT
TO 90 DAYS: 5.0 (SUBSIDIES
IN EXCESS OF 90 DAYS: (BY AGREEMENT)
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CREDIT TO AGRO/
FISHING ACTIVITIES 5.0 6.5
INVESTMENT CREDIT:## I II I II
1 YEAR: 9.0 4.0 (SUBSIDIES INCREASED,
2 YEARS: 7.0 4.0 BUT BY LESS THAN
3.5 POINTS. NEW
3 YEARS: 5.0 3.0 RATES NOT YET DISCLOSED)
4 YEARS: 3.0 2.0
CREDIT TO FIRMS IN
FINANCIAL DISTRESS: 4.0 - 9.0 (5.5 - 10.5
DEPENDING ON FIRMS' POINTS)
FINANCIAL CONDITION)
OWNER-OCCUPIED HOUSING: (NEW SUBSIDY RATES TO BE ANNOUNCED)
E. SURCHARGE ON CONSUMER CREDIT (POINTS
ADDED TO BASIC RATE IN SUBPARA (C)
ABOVE:
TO 1 YEAR: 8.0 7.75
MORE THAN 1 YEAR: 10.0 7.75

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FOOTNOTES: # CUTOFF WAS PREVIOUSLY 70 THOUSAND ESCUDOS
TYPE I INVESTMENT IS CHARACTERIZED BY OUT-
PUT CONTAINING MORE THAN 60 PERCENT NATIONAL VALUE ADDED
AND INVOLVING INVESTMENT OF NOT MORE THAN 750 THOUSAND
ESCUDOS PER JOB CREATED.
TYPE II INVESTMENTS ARE THOSE WHICH WILL
RESULT IN OUTPUT CONTAINING MORE THAN 50 PERCENT NATIONAL
VALUE ADDED.

2. COMMENT: OTHER THINGS EQUAL, COMBINATION OF NEW
INTEREST RATES AND EXCHANGE RATE POLICY DOES NOT SIG-
NIFICANTLY REDUCE INCENTIVE TO CAPITAL FLIGHT. DEPOSITS
OF 180 DAYS TO ONE YEAR, WHICH CONSTITUTE MAJOR SHARE OF
CREDIT INSTITUTIONS' TIME DEPOSIT LIABILITIES,WILL NOW
YIELD 19 PERCENT ANNUALLY. ESCUDO MONTHLY DOWNWARD
CRAWL OF 1.25 PERCENT IMPLIES 16 AVERAGE ANNUAL DEPRECIA-
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TION. FOREIGN INTEREST RATES IN EXCESS OF ABOUT 3
PERCENT WOULD THEREFORE SUFFICE TO ENCOURAGE DELAY OF
EMIGRANT REMITTANCES. SIMILARLY, EXPORT RECEIPTS WILL

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BE DELAYED TO THE EXTENT THAT EXPORTERS HAVE SUFFICIENT
LIQUIDITY OR ACCESS TO CREDIT; IMPORTERS WILL LIKEWISE
BE ENCOURAGED TO ACCELRATE EXTERNAL PAYMENTS AND SEEK
DOMESTIC FINANCING. BLANK MARKET FOREIGN EXCHANGE PREMIUM
OF ABOUT 10 PERCENT MAKES FOREIGN INTEREST RATES OF 13
PERCENT ATTRACTIVE, PARTICULARLY SINCE PRIVATE ENTREPRENEURS
ARE ALREADY PREDISPOSED TOWARD CAPITAL FLIGHT. ANY
SIGNIFICANT REDUCTION IN CAPITAL FLIGHT WILL THUS RESULT
NOT FROM NEW RATE STRUCTURE, BUT FROM LIQUIDITY SQUEEZE
THAT WILL COME FROM GOP'S ADMINISTERED CREDIT POLICY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, INTEREST RATES, BANKS, LOANS, AMENDMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LISBON03478
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780199-0063
Format: TEL
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780574/aaaacldo.tel
Line Count: 181
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 4e5030a1-c288-dd11-92da-001cc4696bcc
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 LISBON 3395
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2737648
Secure: OPEN
Status: NATIVE
Subject: IMF AGREEMENT: BANK OF PORTUGAL RAISES INTEREST RATES
TAGS: EFIN, PO, IMF
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/4e5030a1-c288-dd11-92da-001cc4696bcc
Review Markings:
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